

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion to Assess and Revise the New Regulatory Framework for Pacific Bell and Verizon California Incorporated.

Rulemaking 01-09-001
(Filed September 6, 2001)

Order Instituting Investigation on the Commission's Own Motion to Assess and Revise the New Regulatory Framework for Pacific Bell and Verizon California Incorporated.

Investigation 01-09-002
(Filed September 6, 2001)

**ASSIGNED COMMISSIONER'S RULING
REGARDING CONTINUED AFFILIATE
TRANSACTIONS AUDIT OF PACIFIC BELL**

By this ruling, I order the completion of the affiliate transactions audit that was the subject of hearings in Phase 2B of this proceeding.

The auditors, Overland Consulting, Inc. (Overland), explained in the audit report they prepared for this Commission's consideration¹ that they either could not complete the affiliate transactions portion of the audit, or were unable to act in accordance with Generally Accepted Auditing Standards (GAAS), because Pacific Bell (Pacific) did not provide them complete responsive information. Without pre-judging the merits of the audit one way or another, I find numerous areas in Overland's audit report that recommend additional auditing of Pacific's

¹ The audit was admitted into evidence in Phase 3A of this proceeding as Exhibit 2A: 404.

affiliate transactions. In the interest of providing the Commission a full record on which to judge Pacific's compliance with this Commission's affiliate transaction requirements, I direct Overland, under the management of the Commission's Telecommunications Division (TD), to complete the affiliate transactions portion of the audit. The specific areas that require completion are listed in Attachment A hereto.

Pacific shall cooperate fully with the completion of the affiliate transactions audit. Pacific shall provide Overland not only documents and information relevant to the audit period (1997-99), but also reasonably associated or comparable documents and information from prior and subsequent periods if necessary for Overland to meet its obligations under GAAS.

With Pacific's complete cooperation as set forth above, we expect Overland to submit its report on the completed audit to the Commission by no later than June 30, 2003. On behalf of Overland, TD should deliver a non-redacted copy of the report to the Assigned Commissioner, the assigned Administrative Law Judge (ALJ), the Office of Ratepayer Advocates (ORA), Pacific, and any party that has signed Pacific's Non-Disclosure Agreement. Pacific will have three business days to review the report for confidential information and submit proposed redactions to TD. In identifying the proposed redactions, Pacific should adhere to the standards for placing information under seal that are contained in the ruling issued by the assigned ALJ on January 8, 2002. Before the audit report becomes part of the formal file in this proceeding, it will be Pacific's obligation to file a timely motion to place the redacted portions of the audit report under seal.

TD should prepare a redacted version of the audit report as soon as possible. Once the redacted version is available, TD should provide a copy to the

Assigned Commissioner, the assigned ALJ, ORA , and any party that has previously requested a copy of the redacted report. TD should also provide notice to the service list that both redacted and non-redacted versions of the report are available. TD shall thereafter provide a copy of the redacted audit report to any party that requests a copy.

Pacific may comment on the Overland supplemental affiliate transactions audit once Overland issues its final audit report. I will clarify the comment process in a subsequent ruling. After receiving the final audit report and comments thereon, I will determine what additional procedural steps are appropriate.

IT IS RULED that:

1. In the interest of a full record in this proceeding, Pacific Bell (Pacific) shall submit to a completion of the affiliate transactions audit that was the subject of hearings in Phase 2B of this proceeding.
2. Overland Consulting, Inc. (Overland), under the management of the Commission's Telecommunications Division (TD), shall complete the affiliate transactions portion of the audit in the areas set forth in Attachment A hereto.
3. Pacific shall cooperate fully with the continued affiliate transactions audit as set forth in the body of this Ruling.
4. TD and Pacific shall follow the protocols regarding the issuance of the audit report as described in the body of this ruling.

5. Pacific will be provided an opportunity to comment on Overland's supplemental affiliate transactions audit once Overland issues its final audit report.

Dated February 4, 2003, at San Francisco, California.

/s/ LORETTA LYNCH

Loretta Lynch
Assigned Commissioner

Attachment A

1. Audit of the process Pacific uses for centralized tracking of legal matters. (Audit Report at 13-3, 14-25 to 14-26, Pacific's Opening Brief at 126-27).¹
2. Audit of Pacific's claims that it analyzes costs using the Part 64 cost hierarchy (Audit Report at 12-3, Pacific's Opening Brief at 130-31.)
3. Audit of the record-keeping and document retention efforts of the SBC shared service affiliates doing business with Pacific. (Audit Report at 15-2 to 15-3; Pacific's Opening Brief at 132-33.)
4. Audit of charges to affiliates for services provided by Pacific Bell. (Audit Report at 17-1 – 17-3 *et seq.*; Pacific's Opening Brief at 138-42.)²
5. Audit of fairness of Pacific's fully distributed cost rates. (Audit Report at 17-12 – 17-14; Pacific's Opening Brief at 140-41.)
6. Audit of whether Pacific Bell Directory followed Commission rules regarding purchases from AMDOCS, an SBC software subsidiary. (Audit Report at 18-2; Pacific's Opening Brief at 142.)
7. Audit to determine the correct levels of revenues and expenses to which the 10% mark-up for marketing services billings to unregulated affiliates should be applied. (Audit Report at 20-6; Pacific's Opening Brief at 169.)
8. Audit of Pacific's transactions involving its sharing of customer information, data bases and proprietary information with affiliates, and assessment of potential for cross subsidies relating to such transactions. (Audit Report at 12-3, 12-6, 12-7, 15-1 and 21-10; *see generally* Pacific's Opening Brief at 142-47.)
9. Audit of the enhancements that Pacific states will ensure proper Part 32 accounting classification of parent company costs. (Audit Report at 13-3, 13-17, 13-21; Pacific's Opening Brief at 132.)

(END OF ATTACHMENT A)

¹ To assist in identifying the issues, for each item, we identify where in the Audit Report it appears, and where Pacific discusses the matter in its post-hearing opening brief for Phase 2B.

² In completing this audit task, Overland shall have access to all available material related to Ernst & Young's audit of Pacific's affiliate transactions.

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CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of the original attached Assigned Commissioner's Ruling Regarding Continued Affiliate Transactions Audit of Pacific Bell on all parties of record in this proceeding or their attorneys of record.

Dated February 4, 2003, at San Francisco, California.

/s/ CLAIRE JOHNSON

Claire Johnson

N O T I C E

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